DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Department of Telecommunications and Energy Investigation into Distributed Generation	**D.T.E. 02-38**

REPLY COMMENTS OF WYETH BIOPHARMA

Pursuant to the Department of Telecommunications and Energy ("Department") order dated June 13, 2002, Wyeth BioPharma ("Wyeth") submits the following reply to the initial comments filed in this proceeding.

Executive Summary

As owner and operator of a 5 MW cogeneration unit, Wyeth understands the issues involved with distributed generation, and wishes to address four issues of particular importance. Wyeth advocates and implements sound technical policies for the connection of distributed generation to the utility grid. Wyeth recognizes the distribution companies' concerns about power quality, and advocates the application of sound, consistent principles and properly engineered innovative interconnection technology to best serve customers and protect the legitimate interests of distribution companies. Wyeth believes that only properly applied distributed generation technology is in the best interest of the Massachusetts power grid.

Rational pricing that reflects the actual cost of providing backup services should underpin distributed generation policy. Distributed generation customers should have the ability to negotiate "off tariff" agreements for the level of service they desire. The fundamental policy goals will be best met by permitting distributed generation customers to partner with utilities to

ensure the best possible service to meet the needs of the customer and the utility at a fair price reflecting the benefits, costs, and risks of service.

Wyeth advocates the standardization of environmental requirements across all technology categories. Streamlining of the permitting process is highly desirable, with known standards promulgated in advance, rather than a case-by-case consideration involving lengthy review and uncertain outcome, causing project delays and increased costs to the project. State funding and/or subsidization may be appropriate to promote otherwise cost prohibitive "ultra clean" technologies.

Wyeth looks to the Commonwealth to promote distributed generation through programs designed to develop clean, safe, effective distributed generation applications. Wyeth encourages the Commonwealth to develop a set of standards for qualifying effective projects, and to utilize existing collected energy funds in the promotion of these distributed generation projects.

In summary, good engineering, fair pricing, streamlined permitting and financial incentives are four significant areas for the Commonwealth to focus on in the promotion of distributed generation.

I. Distributed Generation Can Offer Significant Benefits, Provided that Its Implementation Includes a Fair Allocation of Costs and Incentives, and Ensures Safe and Reliable Service.

Distributed generation ("DG") provides a unique opportunity to increase capacity and reduce transmission congestion in the greater Boston area. In addition, a properly designed DG program could improve system reliability, encourage the development of cleaner, more efficient technologies, [1] lessen reliance on specific types of generation, and stimulate economic

[1] Wyeth's Andover DG facility, for example, has undergone stringent environmental review, and meets high standards of emissions and efficiency.

development. To promote realization of these benefits, the Department should establish a policy that ensures a proper allocation of costs and benefits. Rates should compensate DG customers for any benefits they create, as well as compensating distribution companies for the costs incurred in serving those customers.

II. The Department Should Eliminate Existing Barriers to DG Investment, and Establish a Rate Structure that Accurately Allocates Benefits Created and Costs Imposed by DG Facilities.

By their nature, DG facilities are technically diverse and present unique sets of economic and operational factors. A policy that treats all DG users alike will lead to faulty economic incentives and unfair rates, undermining the potential of DG and of rate unbundling generally. An effective policy should base distribution rates (including the demand charge element) on the actual costs and benefits involved in serving the DG customer. The rates must not be permitted to function as penalties for self-generation.

With respect to small DG units, Wyeth recognizes the practical difficulties in tying rates to individual operating characteristics. The Department may decide that a pilot program would help identify the costs of serving small DG units generally. However, a broad-based approach to rate design for mid-to-large sized units is neither necessary nor likely to lead to an equitable result. Mid-to-large sized units are fewer in number, have greater relative impact on the system, and are typically subject to detailed interconnection evaluations. For such units, the distribution charge rate component should be determined on a case-by-case basis through negotiation between the customer and the distribution company.

DG facilities are smaller than commercial generating plants, use a wide variety of fuels and technologies, and have and have differing patterns of generation. This diversity is one of the

principal advantages of DG. However, it precludes implementation of across-the-board distribution rates. As an alternative to the micro-regulation that would be needed to determine fair rates for each and every DG facility, the Department should broaden the authority of distribution companies and mid-to-large sized DG operators to reach independent agreements that reflect the realities of specific generation patterns. Wyeth understands concerns about equal treatment of customers, and believes that rate agreements tailored to actual circumstances would promote fairness by more accurately tying rates to costs and benefits, and preventing dissimilar customers from being treated as if they were the same.

The Department should explore the advantages of a more horizontal regulatory approach, consistent with the overall goals of restructuring and rate unbundling. Allowing distribution companies and their larger DG customers to negotiate customized agreements would minimize administrative oversight, promote solutions tailored to specific problems, and permit the benefits of DG to be secured without delay.

III. The Department Should Implement Measures to Establish Standardized Environmental Requirements, To Streamline the Permitting Process, and to Ensure System Reliability.

One of the principal benefits of properly-implemented DG is the creation of clean, affordable energy. To advance this goal, the Department should standardize environmental requirements for DG facilities, and promulgate clear standards for emissions, efficiency, and system reliability. The clear articulation of these standards should allow the Department to streamline the permitting process

There is no reason to presume that DG users will generate according to short-term market incentives, making their contribution to power resources unreliable. Due to their generation

technology or operational needs, many DG users lack the option of turning their generators on and off to take advantage of the market. If unpredictable shutdowns of particular DG facilities impose costs on distribution companies or other customers, rate structures should address that problem. However, rates should not include a presumption that all DG power is unreliable. Similarly, if individual DG users (particularly those who supply power back into the system) adversely affect system stability, those problems should be addressed. Distribution companies' interconnection studies already identify all system requirements that customers must meet to ensure system stability, and those requirements should be strictly enforced.

Each distribution company has a set of rules and requirements governing the use of customer-owned equipment (the "Information and Requirements for Electric Supply" publication). These rules are designed to protect the system and other customers from disturbances caused by the use of a customer's equipment. They are updated periodically to account for new technologies, including DG technologies. Wyeth supports continued stringent technical requirements for DG customers.

IV. Any Further Departmental Proceedings Must Be Strictly Structured and Controlled to Prevent Delay in Policy Implementation.

Some commenting parties have recommended that the Department conduct further investigations into the value of DG in deferring distribution system investment, and into the potential advantages of identifying locations where DG installations could best relieve transmission congestion. In addition, some parties have recommended establishing a formal collaborative process to resolve issues presented in this docket.

Wyeth does not object to these measures, but is concerned about the cost and delay that could result. Accordingly, Wyeth recommends that any investigations be conducted independent

of the present proceeding, and without delaying it. If the Department institutes a collaborative process, it should: (1) first make rulings on all aspects of the DG policy that do not call for resolution through a collaborative process (*see* Conclusion); (2) separate the remaining issues into discrete segments so that participants need only attend sessions relevant to their concerns (*e.g.*, technical interconnection standards should be treated separately from rate design issues); (3) begin the process immediately, under a strict schedule; and (4) provide facilitation to ensure that issues are clearly defined, promptly addressed, and efficiently resolved.

Conclusion

Wyeth respectfully recommends that the Department take the following action in implementing a DG policy:

1. Find that encouragement of investment in safe, reliable DG is in the public interest, and that any policy must take into account the costs and benefits of DG;

2. Establish fair distribution rates to DG users, with the distribution companies' costs reflected in demand or capacity charges rather than through additional backup and standby charges;

3. Permit greater latitude for distribution companies and larger DG users to enter into individual agreements;

4. Ensure that DG users continue to meet stringent reliability and emission standards, with standardized environmental requirements and a streamlined permitting process; and

5. Structure any investigations or collaborative processes to minimize costs and delays, as set forth in Section IV above.

Wyeth is hopeful that the perspective of a large end-user will assist the Department. As a customer with a significant investment in distributed generation resources, Wyeth views this proceeding as an important one and is pleased for the opportunity to comment.

RESPECTFULLY SUBMITTED,

Wyeth BioPharma,
By its Attorneys

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